Insurance Sector in India: Performance so far and the road ahead

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Abstract: *Insurance sector, apart from contributing to the economic growth of the country by mobilizing and channelizing savings, encouraging trade, commerce, entrepreneurial activity, and other social programs also provides financial stability by protecting against mortality, property and casualty risks and thus provide a safety net for individuals and enterprises in both the urban and rural areas. The insurance sector encourages savings and provides long-term funds for infrastructure development and other long-term gestation projects of the country. The development of the insurance sector in India is thus a necessity for its continued economic transformation. Given the benefits and importance of the insurance sector in the growth programme of the country, the study aims to analyse the development of the sector after it was opened to the private players in the late 1990s. The potential and performance of the insurance sector is assessed on the basis of two parameters, viz., Insurance Penetration and Insurance Density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP). Insurance density is defined as the ratio of premium underwritten in a given year to the total population. The data used in the study is taken from annual reports of Insurance regulatory and Development Authority of India (IRDAI) and Swiss Re Sigma reports. Based on the findings of the study policy suggestions have been drawn.*

Key words*; Insurance Penetration, Insurance Density, Economic Growth, India*

1. INTRODUCTION:

Insurance sector, apart from contributing to the economic growth of the country by mobilizing and channelizing savings, encouraging trade, commerce, entrepreneurial activity, and other social programs also provides financial stability by protecting against mortality, property and casualty risks and thus provide a safety net for individuals and enterprises in both the urban and rural areas (Curak et al., 2009; Cristea et al., 2014). It facilitates savings and also provides long-term funds for the development of much needed infrastructure development and other long-term gestation projects of the country (Ward & Zurbruegg, 2000; Arena, 2008; Han et al., 2010). Realising the importance of insurance activities in the macroeconomic development of the country, the sector got attention from the governments which led to its healthy average growth of more than 10 per cent from 1950s onwards. It needs to be mentioned that the growth rate of insurance business outperformed that economic growth rates during that period (Lee. *et al*., 2013). Globally insurance premiums increased by 82 per cent between 1997 and 2004. This robust growth rate was triggered by the growth rate of 57 per cent in emerging countries compared to that of 27 per cent growth rates in advanced countries (Arena, 2008; Alhassan and Fiador, 2014). India also realised the importance of insurance sector as its role in the economic transformation could be noteworthy and thus opened up the sector for the private players. The journey started with IRDA being set as the regulator of the insurance sector in 1999. With global insurance business progressing at the good pace and making significant contribution in the economic growth of countries the world over prompted the initial motivation for the study that would analyse the progress of the insurance sector of India.

2. LITERATURE REVIEW AND RESEARCH GAP:

Researchers and policy makers have paid the considerable attention towards the insurance sector particularly after 1990. Due to the role of insurance as financial intermediary `and also as the provider of risk transfer and indemnification, various studies have focused the role of insurance sector in the macroeconomic performance of the country. Studies like Ward and Zurbruegg, 2011; Arena, 2008; Vadlamannati, 2008; Kugler & Ofoghi, 2005; Lee, *et al.,* 2013; Curak, 2013; Lui, *et al.,* 2016; Lee and Chang, 2015; are noteworthy in this direction. In the Indian context there are other studies that focus different aspects of industry like Rajasekar and Kumari, (2014) analysed the operational, managerial and financial performance of life insurance industry of India for the time period from 2001-02 to 2010-11. Raju, (2009) analysed the life insurance penetration to ascertain the determinants of its purchase. The findings revealed reduced market share of LIC from 99.46 percent to 81.92 percent despite increased business during the time period between 2002-03 and 2006-07. With regard to insurance penetration, the study revealed it 4.1 percent in 2006 compared to 2.53 percent in 2004. Gunasekaran, (2009) asserts that during the first decade of reforms insurance services promoted investment and stabilised financial market and managed risks. Chand, (2014) revealed that private insurers have expanded their business to the rural and untapped areas with more number of policies, higher amount of premium and changes in the commission expenses and operating expenses. Vadlamannati, 2008 made an assertion that insurance contributes to the economic growth of India and is also an important financial intermediary. The study also suggested for the complete deregulation of the industry and increased pace of reforms in the sector

From the above studies it can be concluded that insurance sector occupies an important place in the economy as it contributes to economic growth of the country by mobilising savings and facilitating long run investments and thus helps in building infrastructure development of the country. Besides insurance companies also help in protecting against mortality, property and casualty risks and provide a safety net for individuals and enterprises in both urban and rural areas. With such benefits of economic and social nature, it becomes imperative to analyse the performance of the sector in Indian context particularly after the sector was opened up for the private players. Thus the study is aimed to analyse the performance of insurance sector in India.

3. INSURANCE SECTOR IN INDIA:

The process of Liberalisation, privatisation and globalisation more commonly known as the policy of LPG changed the course of Indian economy from being a license raj system to free market economy with reduced government control and increased financial liberalization (Ghosh, 2013). The policy of LPG lead to changes in every sector of economy with insurance sector being no exception. R. N. Malhotra Committee which was set up in 1993 to bring out the necessary changes in the insurance business of the country which submitted its report in 1994. The changes were aimed to create a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes then underway and recognizing that insurance was an important part of the overall financial system where it was necessary to address the need for similar reforms (Mohan, 2005; Newar, 2013). The Committee inter alia recommended that private players be allowed to enter the insurance sector to bring greater and deeper insurance coverage in the economy and to channelize the savings for the infrastructural development in the economy (Ranade & Ahuja, 1999; Gunasekaran, 2009). Besides, the Committee also recommended for the reduction of Government’s stake in insurance companies to 50 percent, allowing foreign companies in collaboration with Indian companies, and set up of an insurance regulatory, etc. Immediately after the submission of Malhotra Committee report, a new committee called Mukherjee Committee was set in 1994 to make concrete plans for the requirements of the newly formed insurance companies (Mir and Mishra, 2017). Following the recommendations of the committees, the Government of India in December, 1996 introduced the Insurance Regulatory (IRA) Bill to provide a legislative framework for the establishment of an authority to ensure proper growth of the insurance industry and to protect the interest of the policy holders. However, this IRA Bill could not be passed in Lok Sabha until it was renamed as Insurance Regulatory and Development Authority (IRDA) Bill in 1998 and got passed in the Lok Sabha and subsequently in Rajya Sabha on December 1999. Thus, IRDA Act 1999 ultimately brought an end to State monopoly in insurance business. Finally, the sector was opened to both the private players both inside and outside the country. (Ghosh, 2013).

4. METHODOLOGY:

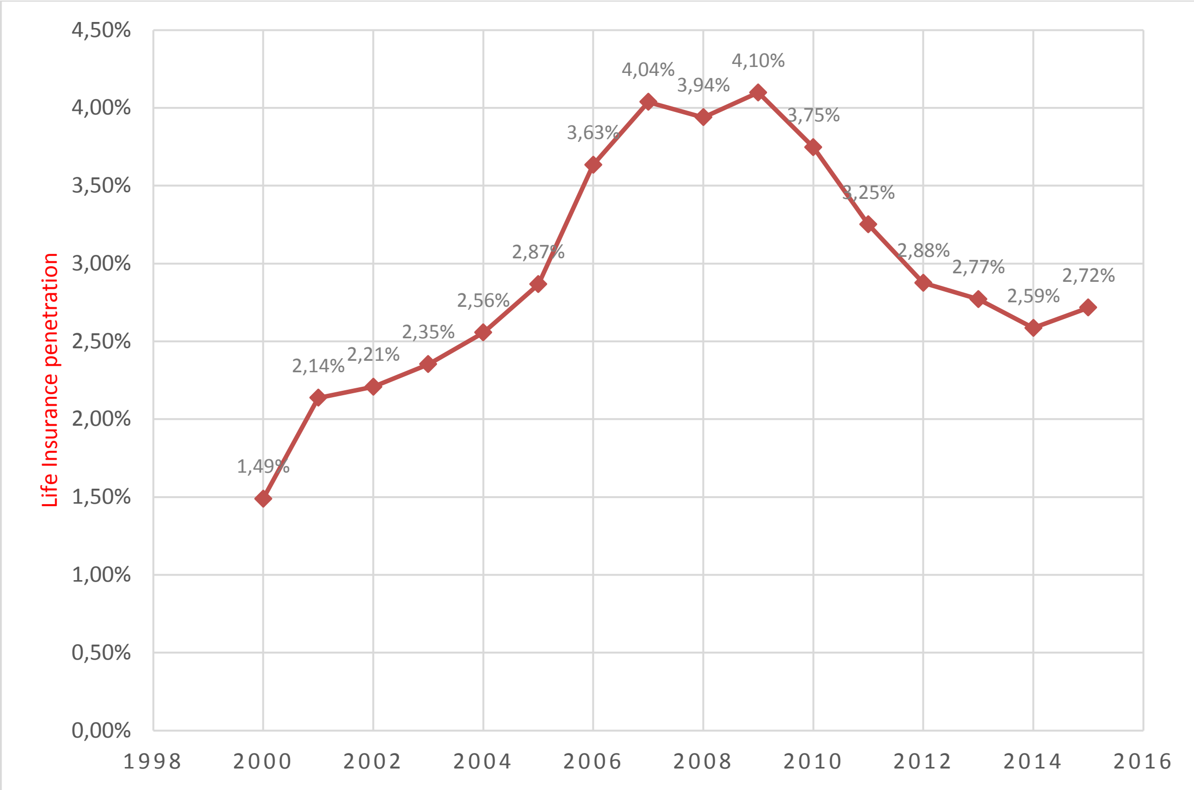
Following the international practice, the performance and development of insurance sector in India is measured in terms of insurance penetration and insurance density. Insurance penetration can be defined as measure of insurance development and can be measured as the ratio of premium underwritten to the GDP in a given year. Similarly, Insurance density as a measure of insurance development is measured with respect to the population of the country. More precisely it is the ratio of total premium underwritten to the total population of the country. Insurance penetration is sub classified as life insurance penetration and non-life penetration. Similarly, insurance density is sub-classified as life insurance density and non-life insurance density. The data regarding various variables used in the study like Life and Non-Life penetration and Life and Non-life Density have been taken from Sigma Reports of Swiss Re.

5. DISCUSSION:

As is seen from the figure 1, life insurance penetration in India has increased during the reform period. Life insurance penetration has increased from 1.49 per cent in 2000 to 4.10 per cent in 2009 and thereafter has decreased to 2.72 per cent in 2015. The fluctuating growth of the sector is not a healthy and needs to be addressed. The non-life penetration has not shown much progress throughout the period as it was 0.45 per cent in 2000 and increased to just .72 per cent in 2015. Similarly insurance density particularly non-life insurance density has not shown encouraging progress during the reform period. If compared to other emerging Asian countries like Malaysia, Thailand and China where insurance penetration during the same year i.e.2015 was 5.81, 5.5 and 3.6 respectively, India lags far behind. Similarly in terms of insurance density these countries have figures like US$472, US$319 and US$281 respectively in year 2015[1].

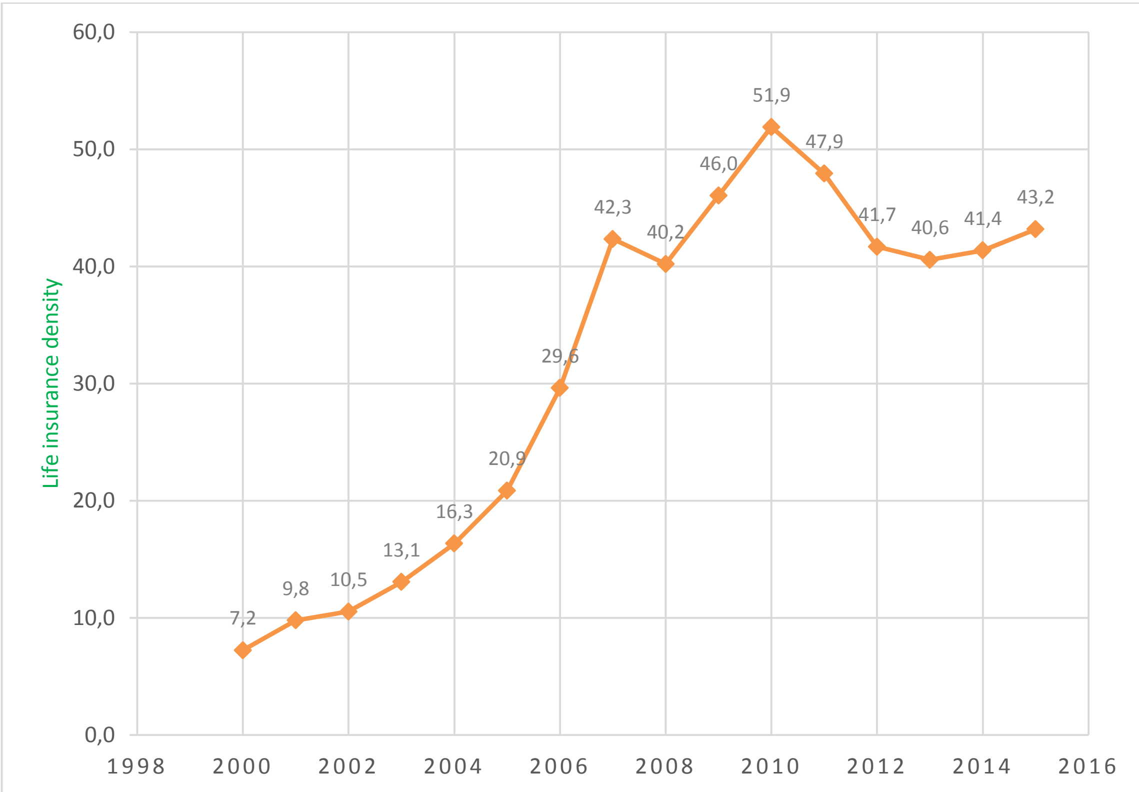
[1] http://www.indiabudget.gov.in/es2016-17/echapter.pdf

Fig. 1: life Insurance Penetration in India (2000 to 2015)



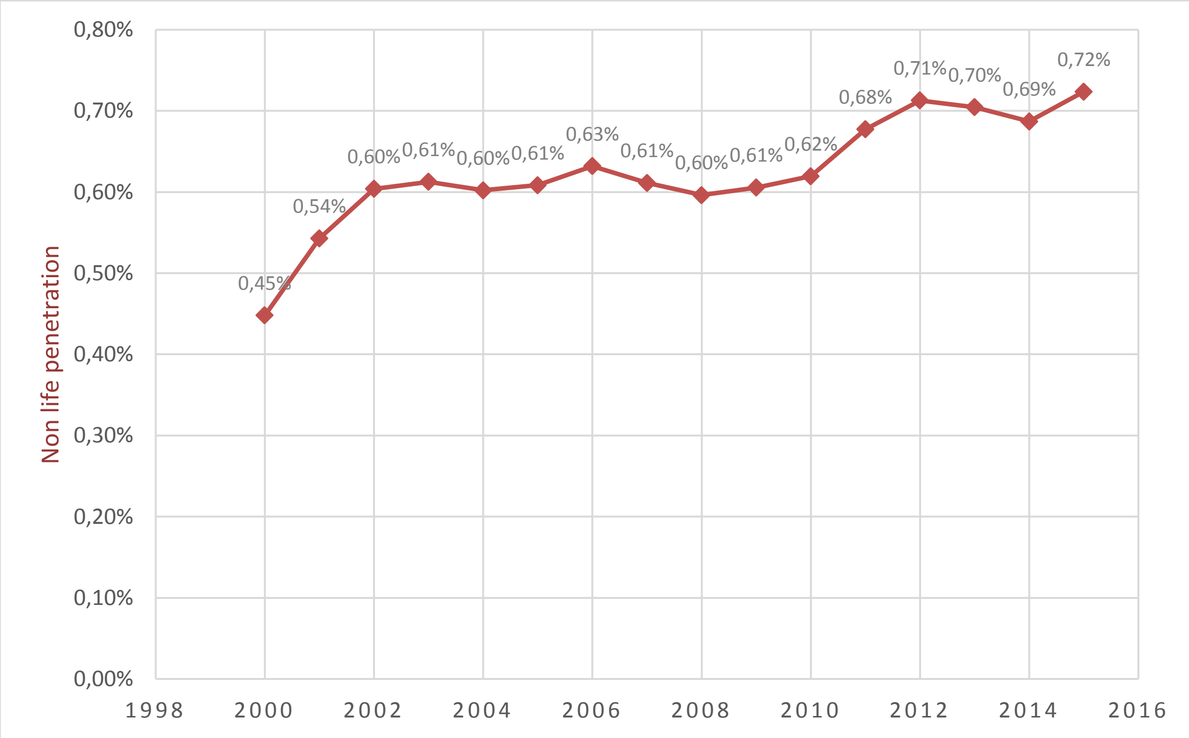
Source: Authors Calculation from Sigma Reports

Fig 2: Life Insurance Density in India (2000 to 2015)



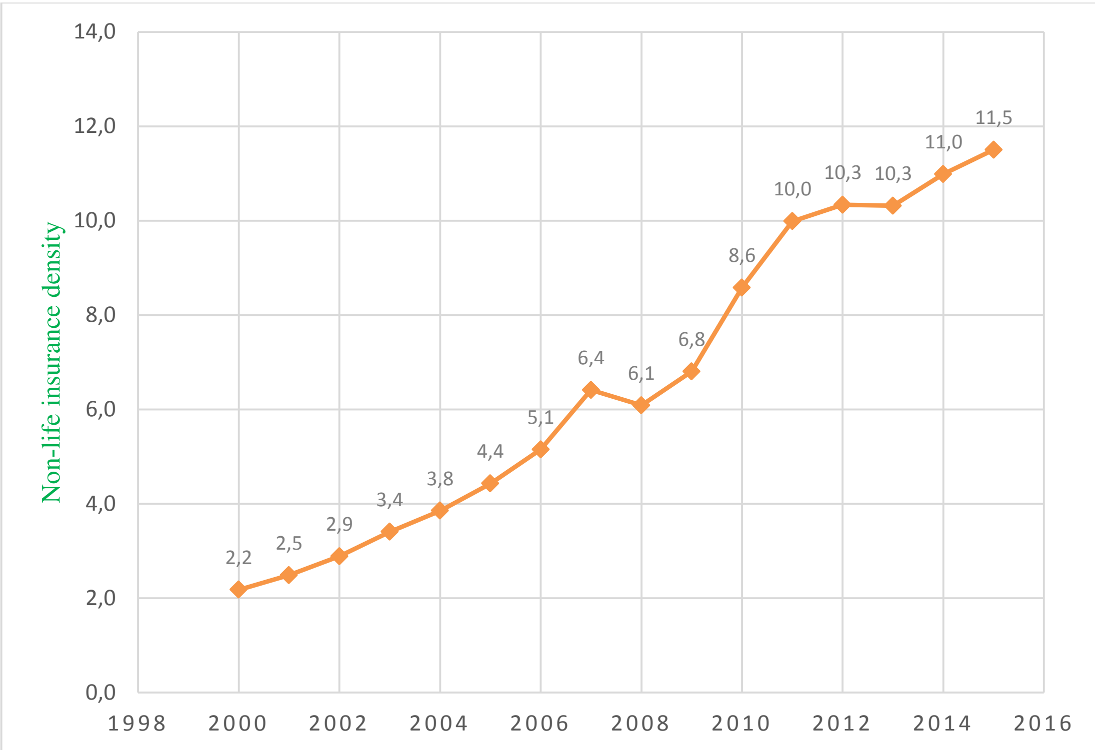
Source: Author's calculation from Sigma Report

Fig no. 3: Non-Life Insurance Penetration in India (2000 to 2015)



Source: Authors calculation from Sigma Reports

Fig. no. 4: Non-life Insurance Density in India (2000-2015)



Source: Authors Calculation from Sigma Reports

6. THE ROAD AHEAD:

As seen in the graphs above that insurance sector in India is not developed to the potential levels since it was freed from monopoly clutches of the Government. Low level of Insurance penetration and density particularly that of non-life insurance industry does not show the encouraging results of the sector. Since insurance sector is meant to transfer risk of the people and their properties so the sector will have to be at the forefront for providing sustainable security products to address various risks that affect people and also must also play an active role by undertaking activities that promote the penetration and density of insurance. Lack of awareness among the masses is another major issue that needs to be addressed. Awareness regarding different insurance products offered by the insurers through public campaigns and also with the help of technology available to a great extent will encourage people to park their savings in various insurance policies and thus help in promoting insurance penetration and density in the country. In the near future, technology is going to create an impact on every sphere of life. The last few years have seen dramatic improvements on several fronts linked to the supply-side infrastructure (BCG, 2017). The Unique Identification (UID) project has already covered crores of Indians and expects to complete the task of issuing a UID to every citizen in the country soon. By linking UID numbers to Know Your Customer (KYC) norms, the process of reaching out to prospective customers will be easier. The future looks promising for the life insurance industry with several changes in the technological domain which will lead the industry to engage with its customers in a meaningful manner (BCG, 2017). Technological advancements and data driven insights are transforming the sector while helping it to provide effective insurance solutions. Insurers are also using social tools for engagement with customers, enabling direct communication between customers and providers. In the competitive scenario, it is important to feel the pulse of the customers and technology allows just this. With the power of various forms of technology, insurers can revise the perspective by segmenting the demographic and other profiles of the users in order to exploit the potential of the medium to create long term value for all.

7. CONCLUSION:

Insurance sector helps an economy in its growth process through different channels. It encourages trade, mobilises savings, and facilitates investment. It also transfers the risk of individuals and firms and thus provides them financial stability. With such positive benefits, insurance sector got due recognition the world over which led to its development. India also realised it and thus liberalised the sector in late 1990s and established Insurance Regulatory and Development Authority of India (IRDAI) as its regulator. Though the sector witnessed positive results, but a lot of efforts are still needed. Low level of Insurance penetration and density particularly that of non-life insurance industry does not show the encouraging results of the sector. However, the technological developments in the country are expected to bring positive impact in the development of insurance environment of the country.

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